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# INTERNAL CONTROLS



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## Definition

- Internal control is the process by which management structures an organization to provide assurance that an entity operates effectively and efficiently, has reliable financial reporting system and complies with applicable laws and regulations.



## Purpose

- To combat fraud and mistakes by:
  - Preventing Opportunity
  - Detecting Fraud, Errors, and Omissions



## Objectives:

- 1) Operations
- 2) Reporting
- 3) Compliance



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## Components:

- 1) Control Environment
- 2) Risk Assessment
- 3) Control Activities
- 4) Information and Communication
- 5) Monitoring Activities



## Control Environment

"Tone at the Top"

- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority, and responsibility
- Demonstrates commitment to competence
- Enforces accountability



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# Risk Assessment

“Where’s the risk”

- Specifies relevant objectives with sufficient clarity
- Identifies achievement of objective risks and analyzes risks to determine manageability
- Assesses the potential for fraud within risks
- Identifies and analyzes significant change that could impact



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# Control Activities

“Policies and Procedures”

- Develop control activities to mitigate risks to the achievement of objectives to acceptable levels
- Develop general control activities of technology to support the achievement of objectives
- Deploy internal control activities through policies that establish what is expected and procedures that put policies into place.



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# Information and Communication



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- Obtains or generates and uses relevant, quality information to support the internal control function
- Internally communicates information, including objectives and responsibilities to support the internal control function
- Communicates with external parties regarding matters affecting the internal control function



# Monitoring Activities



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- Develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including management and the governing boards, as appropriate.





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## Internal Controls Additional Information

- Internal Controls are designed and implemented by management
- Internal Controls should always be evolving and never stagnant
- Segregation of Duties
- Document, Document, Document



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## Additional Guidance

- Uniform Internal Control Standards for Indiana Political Subdivisions – Internal Control Manual

<https://www.in.gov/sboa/files/UniformInternalControlStandards.pdf>